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SUBJECT: NAFTA DEPUTIES MEETING REVIEWS SMOOTH NAFTA IMPLEMENTATION,  
IRONS OUT ISSUES

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¶1. (SBU) Summary. At their annual meeting NAFTA deputy trade ministers discussed the proposed agenda for a NAFTA ministerial to be held later in 2008. Agreed items include a trilateral workplan to enhance North American economic competitiveness, analysis to compare the NAFTA with more recent free trade agreements, and launch of four sectoral promotion programs and a trilateral website to promote the NAFTA. The United States also held separate meetings with both Canada and Mexico to discuss bilateral issues such as cross border trucking, sugar, pork, and softwood lumber. End Summary.

#### Successful Trilateral Talks

¶2. (U) Deputy trade ministers from the United States, Mexico and Canada meet each year to discuss implementation of the NAFTA. On February 18-19 in Monterrey, Mexico, Deputy United States Trade Representative John Veroneau met with his counterparts Marie-Lucie Morin, Canadian Deputy Minister for International Trade, and Beatriz Leycegui, Mexican Under Secretary for International Trade Negotiations.

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¶3. (SBU) The NAFTA deputies noted that the final elimination of NAFTA tariffs on January 1, 2008 had proceeded smoothly. Despite some internal political opposition and protest, Mexican Under Secretary Leycegui stated that the elimination of tariffs on the sensitive products (corn, sugar, and beans) had gone better than expected, and there were fewer social protests than when other tariffs were eliminated in 2003. DUSTR Veroneau agreed that there were fewer problems than expected, and he emphasized the importance of regional integration. He also discussed the administration's efforts to persuade Congress to approve the U.S.-Colombia free trade agreement (FTA). Canadian Deputy Minister Morin noted that although NAFTA was controversial in the United States and Mexico, Canadians still strongly supported NAFTA. Canada is focused on negotiating free trade agreements with additional Latin American countries, having just completed a Peru FTA. Canada is also negotiating with Caricom and the Dominican Republic. Leycegui stated that Latin America was on the top of Mexican President Calderon's agenda, and Mexico hoped to integrate the various FTAs it had

already negotiated.

¶4. (SBU) The NAFTA deputies also discussed means to 'modernize' or enhance NAFTA, including a work plan to enhance North American competitiveness. The deputies first agreed to compare NAFTA with the most recent FTAs, such as Colombia and Peru for the United States, before the next NAFTA ministerial meeting. This comparison could identify differences between NAFTA and more recent agreements. Moreover, Mexico will propose a chapter-by-chapter review of NAFTA to determine where NAFTA could be enhanced. The Deputies also reviewed work to date on four 'sectoral initiatives' covering swine, chemical, consumer electronics and steel and noted more detailed workplans and organization structure should be completed before announcing them at the Ministerial.

¶5. (SBU) At the August 2007 meeting of the Free Trade Commission, ministers agreed to develop a workplan to advance North American economic competitiveness. At the deputies meeting, Canada discussed its draft work plan, which called for research in nine sectors: global value chains; foreign direct investment, capital mobility and financial services; global account imbalances, exchange rates and interest rates; labor; resources and energy; services, borders; competition from other regions; and the environment. Canada proposed that in their next meeting the NAFTA trade ministers agree on joint economic research that would eventually lead to specific policy recommendations to promote competitiveness. Mexico sounded interested, and stressed that policies to improve competitiveness were the most important part of the exercise. Leycegui also thought that the work plan could be a platform to create a framework of cooperation to advance regional integration. DUSTR Veroneau agreed that it would be useful to review existing NAFTA literature. Veroneau noted that internal governmental policies, such as the education system and infrastructure, are the real keys to national competitiveness. Veroneau was also cautious because the proposed study would reach far beyond trade policy and questioned whether the study would extend beyond the NAFTA trade ministers' mandates. Assistant USTR for the Americas Everett Eissenstat pointed out that there are risks to amending NAFTA in the current political climate, since the unintended result could be more trade

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restrictive. After more discussion, Veroneau requested time for consultations and review, and the deputies agreed to discuss the proposal further in mid- March.

¶6. (U) The NAFTA deputies agreed to develop a NAFTA website to communicate the benefits of NAFTA to the general public. Canada will provide initial funding and host the website, which will include facts, statistics and success stories, and links to other sites. The United States and Mexico agreed to provide funding to maintain the site. All three countries will provide the content. The goal is to formally launch the site at the Ministerial meeting.

¶7. (U) After the NAFTA deputies meeting, DUSTR Veroneau held a press roundtable, where he explained the benefits of NAFTA to newspaper and television reporters. Veroneau's remarks were carried in the leading Monterrey newspaper El Norte, highlighting a study that without NAFTA, Mexican exports would have been 50% lower. Veroneau emphasized how the United States expects Latin America to experience strong economic growth, and the bilateral FTAs with Peru and Colombia will assist the member countries' economies.

#### Mexican Bilateral Issues

¶8. (SBU) Cross-Border Trucking: Mexican Under Secretary Leycegui thanked the United States for continued implementation of the cross border trucking pilot program, but she asked about the legal challenges. DUSTR Veroneau noted that the administration has worked hard to maintain the pilot program. There could be a preliminary ruling in the lawsuit against the pilot program in the next two to three months, but USTR expects

the administration to prevail in the case. Both sides agreed that it would be helpful to have additional American trucking companies involved in the program to generate political support.

¶9. (SBU) Mexican Pork Exports: Leycegui is under pressure from her pork industry. In December 2007 Mexico shut down 10 border posts to U.S. pork exports (constituting 5-6% of U.S. exports). Moreover, the prime Mexican pork producing states are prohibited from exporting to the United States until they are certified free of classical swine fever. Leycegui pressed the U.S. to certify the Mexican pork areas as free of classical swine fever, in part to assist Mexico to open Asian markets. Veroneau offered to check with USDA on the status of certification. Veroneau was also concerned about the closing of Mexican ports of entry for U.S. animal exports, particularly if Mexican blocks more ports or expands its blockage to additional products. The United States and Mexico also agreed to encourage additional communication between their pork industries.

¶10. (SBU) Sugar: Leycegui and Veroneau both noted that although sugar is a very sensitive product, both governments held firm and implemented NAFTA to permit free trade. However, Mexico is still interested in the establishment of a NAFTA Chapter 20 dispute settlement panel on sugar. Veroneau pointed out that the NAFTA panel would be unable to grant any relief since the markets are now open and any relief could only be prospective.

#### Canadian Bilateral Issue

¶11. (SBU) Softwood Lumber: Due to the downturn in the United States housing market, there is considerable closure and consolidation in the U.S. and Canadian lumber industries. Canadian Deputy Minister for International Trade Morin and DUSTR Veroneau first discussed issues with a data reconciliation project between Canada and U.S. Customs on the value and volume of Canadian lumber exports. Veroneau also responded to Canada's questions about an upcoming U.S. import surveillance mechanism to monitor Canadian exports. Although Canada was concerned, Veroneau explained that the monitoring project was permitted under the Softwood Lumber agreement, and it was necessary to maintain U.S. industry confidence.

WILLIAMSON